

**SEARCH NOTES**  
**09/977,128**  
**Set 2**

L Number	Hits	Search Text	DB	Time stamp
-	1	"6029141"	USPAT	2003/05/04 16:26
-	1	.pn. 6334111.pn.	USPAT	2002/11/04 14:07
-	7	internet near6 commission	USPAT	2002/11/04 14:07
-	3	(internet near6 commission) and 705/26.ccls.	USPAT	2002/11/04 14:07
-	765	705/26.ccls.	USPAT; EPO; DERWENT	2003/04/28 13:53
-	436	705/26.ccls. and (referral or referring)	USPAT; EPO; DERWENT	2003/04/28 13:53
-	35	(705/26.ccls. and (referral or referring)) and commission	USPAT; EPO; DERWENT	2003/04/28 13:54
-	25	((705/26.ccls. and (referral or referring)) and commission) and (link or hyperlink)	USPAT; EPO; DERWENT	2003/04/28 13:54
-	0	709/21.ccls.	USPAT; EPO; DERWENT	2003/04/29 14:14
-	831	709/201.ccls.	USPAT; EPO; DERWENT	2003/04/29 14:14
-	7	709/201.ccls. and commission	USPAT; EPO; DERWENT	2003/04/29 14:30
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Search History 5/4/03 7:02:34 PM Page 1

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-	23	((ROUTE OR ROUTED OR ROUTING) NEAR10 (REFERRAL REFERRING HOST PORTAL)) AND COMMISSION) AND (INTERNET ONLINE WEBSITE E-COMMERCE)	USPAT; EPO; DERWENT	2003/04/29 15:12
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-	1284	"open market"	USPAT	2003/05/04 16:27
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-	0	("open market" and "open market".as.) and affiliate	USPAT	2003/05/04 16:33

## SHOW FILES

File 16:Gale Group PROMT(R) 1990-2003/May 02  
 (c) 2003 The Gale Group  
 File 47:Gale Group Magazine DB(TM) 1959-2003/May 01  
 (c) 2003 The Gale group  
 File 148:Gale Group Trade & Industry DB 1976-2003/May 02  
 (c)2003 The Gale Group

Set	Items	Description
S1	4665639	((SET () UP) OR ESTABLISH? OR CREAT?)
S2	3152693	(INTERNET OR ONLINE OR WEBSITE OR E-COMMERCE)
S3	11051	(HANDLE (S) (PAYMENT OR TRANSACTION))
S4	3618	S1 AND S2 AND S3
S5	50048	OUTSOURCE
S6	0	S 4 AND (((SET () UP) OR ESTABLISH? OR CREAT?) (6N) (WEBSI-TE OR BUSINESS OR WEBPAGE))
S7	3846	S5 AND (((SET () UP) OR ESTABLISH? OR CREAT?) (6N) (WEBSITE OR BUSINESS OR WEBPAGE))
S8	344	S7 AND AFFILIAT?
S9	159	S8 NOT PY>1999
S10	299	S8 NOT PY>2001
S11	135	S10 AND (RETURN? OR LOYAL?)
S12	2	S11 AND ((HOST OR REFERRING) (S) (PAYMENT OR PURCHASE))
S13	26	S11 AND (OUTSOURC? (S) (TRANSACTION OR PROCESSING OR PAYMENT OR PURCHASE))
S14	5011	(AFFILIATE? () PROGRAM)
S15	1	S14 AND S1 AND S3 AND S7
S16	18446	(SUPPORT (S) AFFILIATE?)
S17	1401	S16 AND (HOST OR REFERRING)
S18	618	S17 AND (SUPPORT? (S) (SOFTWARE OR PROGRAM OR SYSTEM OR PLATFORM))
S19	561	S18 NOT PY>2001
S20	19	S19 AND ((TRANSACTION OR PAYMENT OR PURCHASE) (6N) (SERVICE OR ASSIST OR HANDLE))
S21	414	((AFFILIATE () PROGRAM) (9N) (SUPPORT OR ASSIST? OR SERVICE))
S22	5	S21 AND (OPEN () MARKET)
S23	0	(OPEN () MARKET) AND (TRANSACTION () 4.0)
S24	93	(OPEN () MARKET) AND (TRANSACTION () 4)
S25	93	S24 NOT PY>2001
S26	55	RD (unique items)
S27	19	S26 AND (COMMISSION OR FEE)
S28	2	S27 AND PATENT

"TDAFILZ"

TS15/9/1

15/9/1 (Item 1 from file: 148)

DIALOG(R)File 148:Gale Group Trade &amp; Industry DB

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10628435 SUPPLIER NUMBER: 20347728 (THIS IS THE FULL TEXT)

**Web Of Incentives -- Retailer leads charge with new sales model, but IT challenges daunting. (revenue-sharing with affiliates by e-commerce retailers) (Industry Trend or Event)**

Karpinski, Richard

InternetWeek, n702, p1(2)

Feb 16, 1998

ISSN: 1096-9969

LANGUAGE: English

RECORD TYPE: Fulltext; Abstract

WORD COUNT: 979

LINE COUNT: 00081

ABSTRACT: Several retailers who use electronic commerce, including eToys, Amazon.com and Barnes & Noble, are sharing their sales with their affiliates. eToys is increasing its sharing of sales with affiliates to 25% from 12%. The bookseller Amazon.com provides a good example of a successful affiliate program with 30,000 affiliates, who maintain mini-book stores on their Web sites. Several companies have begun providing managed network services and products to assist IT managers with affiliate programs. For example, LinkShare plans to release software that will enable sharing of anonymous user profiles to partners of an affiliate program, so that they can mount targeted commerce campaigns. Open Market plans to include support for affiliate programs in its Transact 4.0 commerce server.

TEXT:

A growing number of Web merchants are ready to give away the store-or at least a healthy cut of sales-to affiliates that deliver traffic and transactions.

Several developments on tap will drive suddenly red-hot revenue-sharing affiliate programs to new heights.

Online retailer eToys Inc. will reveal as early as this week plans to give affiliates a full 25 percent, up from 12 percent, of all sales they drive, leapfrogging the single-digit shares offered by the better known programs of Amazon.com, Barnes & Noble and other Web retailers.

According to eToys, the numbers behind affiliate programs give commerce sites compelling rationale to embrace them (see chart on page 1). Even the most successful Web advertising campaigns can't come close to beating revenue-sharing deals for driving visitors through to a successful online transaction, eToys executives said.

"From a store perspective, nothing beats a back-end deal. It's really a beautiful thing," said Phil Polishook, vice president of marketing at eToys.

IT managers will face significant technology challenges in implementing affiliate programs. Homegrown systems-often lacking in significant back-end automation-are being forced to scale to manage an exponentially growing number of Web sessions, while integrated links to accounting and payment systems are becoming a prerequisite to running a successful affiliate program.

Commerce vendors have caught wind of the affiliate trend in a big way. Several smaller companies, most notably LinkShare Corp., Be Free Corp. and i-traffic Inc., offer software and managed network services specifically designed to handle these kinds of programs. LinkShare, for instance, will release a new version of its Synergy affiliate software later this month that will let stores share anonymous user profiles across its network, enabling merchants and their partners to launch more targeted commerce campaigns. That network carries the transactions of 80 merchants and their 4,000 affiliates.

Elsewhere, Open Market Inc. is including support for affiliate programs as part of the official release of its Transact 4.0 commerce server this spring (see story, page 23). Specifically, the commerce server now lets retailers treat affiliates as satellite storefronts or franchises that handle sales within their own sites and send transaction data back to the source.

Microsoft also is supporting more sophisticated affiliate-selling support, dubbed Buy Now, in its Site Server 3.0 Commerce Edition, now in beta.

Why all the hype? "This really represents a maturing of the Internet," said Aberdeen Group analyst Chris Stevens. "As large commerce players begin to make a substantial portion of their revenue on the Web, they are interested in revenue performance and ROI. These programs are performance-oriented."

Despite the promise, the technology needs to improve. "No one is merchandising well across these sites and there's very little analysis going on. This is a complicated network that gets created, but the technology is still a little primitive," said Bill Doyle, an analyst at Forrester Research, which recently published a report that touts the benefits of Web-based affiliate programs.

In the survey of large commerce sites, 35 percent of the respondents said context-sensitive syndicated selling was their most effective way to drive traffic and sales, compared with just 16 percent for ad banners.

So what is an affiliate program? The best example may be Amazon.com, which, with more than 30,000 affiliates, has one of the oldest and largest networks on the Internet. Amazon.com lets any qualifying business create a mini-bookstore on its site. The affiliate is provided with a unique account code embedded into a URL. Visitors click on those links and are fed directly to Amazon.com.

Any books purchased are traced back to the referring site, and a share of the revenue-anywhere from 5 percent to 15 percent in Amazon.com's case-is split with the affiliate.

From a technology perspective, affiliate programs can be boiled down to a few key elements: real-time session management; user identification and profiling; and back-end application integration, said Stevens, the Aberdeen analyst.

eToys is a good example of a company that has built a unique homegrown affiliate platform yet continues to look for even more robust technologies.

In a new deployment slated for next week, the site will use a two-tier approach to identify affiliate users. If a user will accept a cookie, eToys will use that approach to track user behavior. Otherwise, account-code strings will be embedded within referring URLs, said Robert Ferber, eToys' vice president of technology.

Integration with eToys' back-end systems is limited at this point, and most transactions are still handled manually.

The company has been evaluating third-party solutions with an eye toward improving functionality while keeping in-house programming costs in check, Ferber said.

Unless a company is running a top-tier commerce site, it may make sense to outsource the building and management of affiliate programs, Stevens said.

LinkShare is perhaps the leading outsourced service in this market. Its Synergy affiliate software and LinkShare Network-featuring merchants such as FAO Schwarz, Reader's Digest, Omaha Steaks and Avon-is based on the company's patent-pending Referral Tracking and Payment technology, which manages commission payments between merchants and their affiliates.

"We don't use cookies or log analysis or referrer tags. They can be very inaccurate at times. It's OK to lose track of a few clicks when you're buying a million ad impressions, but with transactions, every mistake means lost revenue for the affiliate," said Stephen Messer, CEO of LinkShare,

which takes a cut of between 2 percent and 3 percent of all transactions on its network.

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INDUSTRY CODES/NAMES: BUSN Any type of business; TELC  
Telecommunications

DESCRIPTORS: Electronic commerce--Management; Computer software industry  
--Product development

PRODUCT/INDUSTRY NAMES: 7372640 (Electronic Commerce Software)

SIC CODES: 7372 Prepackaged software

FILE SEGMENT: CD File 275

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TS12/9/1

12/9/1 (Item 1 from file: 148)

DIALOG(R)File 148:Gale Group Trade & Industry DB  
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14366374 SUPPLIER NUMBER: 80966329 (THIS IS THE FULL TEXT)

**Virtual venturing and entry barriers: Redefining the strategic landscape.**

Fitzpatrick, William M.; Burke, Donald R.

SAM Advanced Management Journal, 66, 4, 22(7)

Autumn, 2001

ISSN: 0036-0805

LANGUAGE: English

RECORD TYPE: Fulltext

WORD COUNT: 4507

LINE COUNT: 00394

## TEXT:

## Introduction

Firms wishing to enter markets dominated by established firms frequently must overcome a variety of competitive barriers including economies of scale, capital requirements, access to distribution channels, product differentiation, switching costs, cost disadvantages independent of scale, and government policy (Porter, 1980). These barriers lengthen the time during which existing firms may be able to exploit competitive advantage without risking competitive rivalry or imitation from others (Shepherd & Shanley, 1998). This paper seeks to demonstrate how the virtual form of organization may permit firms to mitigate the competitive impact of the first four of these traditional entry barriers by leveraging the strategic capabilities of sub-contractors/outsourcers, value chain partners, and information technologies.

## Virtual Organizations

Virtual organizations are synonymous with the emergence of organizational adhocracies that rely upon the extensive use of outsourcing, strategic alliances, and other forms of partnering to accomplish objectives (Fitzpatrick & Burke, 1999). These coalitions of strategic partners seek to create relationships that help firms better manage all phases of the value chain within their industry. Virtual companies may elect to outsource or subcontract a variety of activities including administrative or staff support functions, raw material fabrication, finished goods manufacturing, distribution, and customer support, service operations (Daft, 1994). Typically, these firms elect to (1) create an organizational hub that performs all the functions needed to maintain their core competitive competencies and coordinate the work process as it flows or is transferred from one subcontractor to another; and (2) outsource activities that can be performed more efficiently or effectively by potential value chain partners (Christie & Levary, 1998). Once the virtual company has accomplished its primary objectives, it will generally terminate relationships among its current set of partners and establish new outsourcing relationships to pursue alternate goals (Christie & Levary, 1998). Given this relational and contractual flexibility, organizational theorists have speculated that virtual organizations may be able to yield many situational or competitive advantages including:

1. sharing infrastructures, R & D, and costs
2. linking complementary core competencies
3. reducing concept-to-cash time through sharing
4. increasing facilities and apparent size
5. gaining access to markets and sharing market or customer loyalty
6. migrating from selling products to selling solutions. (Palmer, 1998, 74)

These advantages help firms overcome a variety of entry barriers including economies of scale, capital requirements, product differentiation, and access to distribution channels.

### Virtual Organizations, Economies of Scale, and Capital Requirements

Economies of scale represent an overall decline in cost per unit as a function of production or service volume. Typically, production or service costs tend to decline 20% to 30% every time production/service levels double (Oster, 1994; Fitzpatrick, 1999). These learning or experience curves largely stem from an organization's ability to allocate its fixed costs over a large production or service quantity. Traditionally, manufacturing firms have attempted to achieve this low cost position by pursuing large market shares and constructing large volume production facilities that are most efficient at high output (Porter, 1980; Fitzpatrick, 1999). To counter a competitive position based upon economies of scale, new entrants must (a) commit a lot of money to acquire assets that permit production capacities/service levels that match the largest scale competitor; (b) accept the status of being noncompetitive with respect to product/service cost or pricing; or (c) elect to pursue some type of noncost/nonprice method of competition, i.e., a differentiation strategy (Fitzpatrick, 1999; Thompson & Strickland, 1998). The pursuit of this first option may place significant financial restrictions on the firm because of excessive capital requirements. Often new entrants, venturing into industries dominated by large existing competitors and characterized by significant competitive risks, may be able to secure investment capital only by paying high interest premiums (Porter, 1980) or by surrendering a degree of control over their firm to venture capitalists (Ackerman, 1998). Additionally, venture capitalists have shown some reluctance to provide investment capital to new ventures where the new entrants' management lacks skill, expertise, or experience in the venture's primary business activities (MacMillan, Zemann & SubbaNarasimha, 1987; Shepherd & Shanley, 1999).

Virtual organizations are able to circumvent many of the competitive barriers and limitations imposed on them by economies of scale and capital requirements by outsourcing many of their fixed asset/fixed cost activities to subcontractors. Harrigan (1984) outlines the difficulty firms face when they are unable to develop manufacturing or service facilities capable of generating economies of scale. She maintains that subcontracting should be the preferred option for firms when they are unable to build facilities with scale efficiencies. This might occur under conditions where the firm has limited financial resources or insufficient market share to justify large fixed asset investments. Under these circumstances, affiliating with an outsourcer possessing large-scale efficient facilities will permit organizational hubs to participate in the experience curve benefits generated by their subcontractors. Pursuit of these subcontracting activities that benefit from supplier economies is often one of the principal motivations behind the global outsourcing of supply chain functions. Take the Ford 2000 strategy. In this strategy, Ford reduced the number of its raw material suppliers so that these vendors may produce in sufficient volume to generate economies of scale and thereby pass the savings along to Ford in terms of lower raw material prices (Treece, Kerwin & Dawley, 1995).

The creation of virtual procurement or e-business buying pools may also generate purchasing efficiencies that reduce the operating costs of virtual companies. Ferguson (1999) notes that a variety of firms have created e-business buying pools to generate significant economies or cost reductions in their raw material procurement activities. Large Web-based buying pools and consortiums "are pooling their corporate purchases to get better deals or special treatment. There's a payoff for vendors, too. They lower their costs by gaining quick access to large, well-defined pools of buyers" (Ferguson, 1999:EB33). Increasingly, these Internet buying groups or electronic keiretsus are being organized for a variety of commercial clients by banks, and telecommunications and transport companies (e.g., Chase Manhattan, Nippon Telephone & Telegraph, Wells Fargo). These

electronic keiretsus not only bring together the volume buying power of their memberships to secure quantity discounts but also encourage their members to utilize one another's products and services. In this fashion, electronic keiretsus, like their Japanese counterparts, attempt to coordinate and develop reciprocal commercial relationships among their value chain partners. However, a fundamental distinction between the Japanese and electronic model of the keiretsu is reflected in the different mechanisms used to manage these commercial relationships. The Japanese model creates a variety of structural mechanisms (e.g., interlocking directorates, joint/equity partnerships, general trading companies, etc.) to manage these relationships on a more permanent basis (Morgan & Morgan, 1991). In place of these formal administrative mechanisms, electronic keiretsus generally rely upon information technologies to collectively manage their distributed network of commercial relationships. Ferguson (1999) concludes that these electronic buying pools serve to (1) generate better prices; (2) develop additional sources of revenue for commercial intermediaries managing the electronic procurement site; (3) increase efficiency by permitting buyers to access one site to compare prices from many suppliers; and (4) permit buyers to access a larger number of medium or small suppliers that may not be able to participate in other supply chain management initiatives such as electronic data interchanges.

A variation of these electronic buying pools is the business-to-business online auction. Online auctions permit both buyers and sellers to come together electronically to create greater time and pricing efficiencies in procurement processes. Buyers monitor the auction sites for various raw materials they wish to acquire and encourage vendors participating on the site to bid for supply contracts. This open bidding process encourages vendors to reduce prices by trimming their profit margins. Thus, buyers are able to rapidly locate the low-priced vendor of the needed materials (Hamashige, 2000).

Cost shifting to outsourcers also constitutes a major method for reducing a virtual company's capital requirements. Rather than selecting subcontractors based upon their ability to pass along cost savings or scale efficiencies, virtual companies may seek strategic partners based upon their willingness to absorb many of the fixed or variable costs that might ordinarily be the responsibility of the virtual firm. For the virtual company, this strategy serves to lower their capital requirements and maximize their liquidity. For example, Cisco Systems outsources most of its production work to 37 factories owned by other firms. These outsourcers perform 90% of all subassembly work and 55% of all finished goods assembly. A Cisco executive notes that "We can go from quote to cash without ever touching a physical asset or a piece of paper. You've heard of just-in-time manufacturing. Well, this is not-at-all manufacturing" (Port, 1999:104). Cisco estimates that these outsourcing activities enable them to save between \$ 500 and \$800 million in yearly operating costs (Port, 1999).

The technique of hosted solutions represents another outsourcing method to facilitate cost sharing between virtual companies and their strategic partners. Hosted solutions proposes that virtual companies should outsource fixed asset/cost-intensive operations that are not central to their core competitive competencies. For example, in the biotechnology industry, differential expertise and cost sharing have led to a division of labor (and investment) between firms supporting the infrastructure and software applications needed to drive DNA research. By outsourcing noncore cost-intensive activities, research laboratories are able to offload costs while benefiting from the technical efficiencies and expertise of their strategic partners (Shirky, 2000). Franklin Covey, a provider of time management products and services, has recently added online educational courses and customized Web pages for business customers. To procure needed product-related expertise and infrastructure, the firm partnered with an e-commerce software developer and an applications service provider. "...

(t)he company turned to outsourcing because the monthly fee will be less than half of what Franklin Covey would have to spend to develop the same functionality in-house" (Leibs, 1999).

While some new entrants may be unable to deploy cost shifting strategies to reduce capital requirements, they have been able to exploit various types of strategic alliances to secure capital resources. A variety of new venture capital companies (e.g., eCompanies, IDEALAB, CMGI, eHatchery) emerged to create both a business incubator and sources of financial capital for newly emergent virtual companies (Armstrong & Grover, 1999). These incubators provide financial capital and management expertise that can be used by business start-ups in both the development and launching of their competitive enterprise. As noted by Jake Winebaum, cofounder of eCompanies, investors in these new venture capital incubators are selected "for more than their money. We picked them for strategic reasons" (Armstrong & Grover, 1999:46). These strategic reasons include business expertise necessary to assist the new entrants in (a) formulating new products, services or technologies and (b) securing a guaranteed customer base from among their investor cadre. Therefore, in many ways, these venture capital companies are utilizing these new business start-ups as R & D departments or specialized service providers in exchange for working capital. Thus, the interrelationships between these venture capitalists and their emerging partners seem to duplicate the competitive infrastructure underlying Japanese keiretsus. In a similar fashion, Microsoft has created the E-Commerce Alliance, which provides both funding and software expertise to channel potential rivals into developing integrated e-commerce packages that will have system integrity and synergies with existing Microsoft software (Dalton & Wilder, 1999). This joint venture arrangement permits them to leverage the strategic capabilities of these providers and more efficiently develop products and services across a variety of industries (Ackerman, 1998).

Many small companies have expressed fears that they may either become potential takeover targets of the venture capitalist or captives in their competitive orbit (Ackerman, 1998). This potential captivity is also illustrated by the Japanese technological prospecting strategy of 1st purchase/1st refusal. The practice involves (a) isolating creative R & D entrepreneurs or firms that are short on capital; and (b) agreeing to fund their future research activities in exchange for the 1st purchase/1st refusal concession. This concession stipulates that when the R & D reaches the patent stage, the inventor (1) must agree to offer the venture capitalist the right to exclusively buy or license the technology; and (2) cannot offer it to any other purchaser until the venture capitalist actually refuses to buy the technology. In this manner, the venture capitalist can prolong price negotiations for the technology until such a point that the inventor must capitulate the financier's demands (Morgan & Morgan, 1991; Nugent, 1992; Fitzpatrick, 1999).

#### Virtual Organizations and Product Differentiation

Product differentiation refers to the degree that consumers perceive product offerings to be characterized by some level of uniqueness. Firms can cultivate this perception by creating (1) design or brand images, (2) special product feature, (3) extensive and excellent customer service, and (4) specialized dealer or product distribution networks (Porter, 1980; Fitzpatrick, 1999). Products differentiated on the basis of specialized attributes may offer features that are attuned to the socio-demographic segments of the firm's market or contain advanced technologies. To combat existing product substitutes, firms using this method of differentiation will have to sustain high R & D expenditures, discover methodologies for eroding patents associated with protected technologies, or absorb significant cost as these technologies or raw materials are purchased from the firms' value chain partners (Porter, 1980; Fitzpatrick, 1999). Existing firms have often attempted to create design or brand images on the basis of

extensive promotional campaigns. New entrants often find that these promotional campaigns are difficult to counter in both a time and cost-efficient manner (Ghemawat, 1999).

Harrigan (1984) has suggested that subcontracting may provide new market entrants with a mechanism for overcoming the entry barriers imposed by the product differentiation activities of other firms. Subcontracting offers new entrants and virtual companies an opportunity to secure advanced technologies, quality components, or specialized product features that may be difficult for them to originate. Thus, rather than attempting to establish their own unique source of product differentiation, these virtual firms rely on both the advertising and market reputation associated with the components, technologies or services acquired from subcontractors to distinguish themselves from the competition. Additionally, subcontracting can permit new entrants to use outsourcers as a substitute for maintaining their own extensive R & D capabilities and may also allow them to overcome a variety of technological roadblocks through their affiliation with firms possessing licensing patent-protected technologies (Harrigan, 1984). Under this scenario, it is expected that subcontractors and outsourcers will attempt to adjust their prices to recoup R & D expenses. Virtual companies may be able to minimize the absorption of these latter costs by affiliating with outsourcers that allocate R & D expenses over a large customer base. However, it should be noted that common usage of identical technologies by many customers may also serve to lessen product uniqueness and thereby erode the differentiation strategy of these new entrants or virtual firms (Porter, 1980).

E-commerce systems have created another source of differentiation available to both existing competitors and new entrants. By linking customers directly to internal information and planning systems, customers are able to monitor order status, and make suggestions affecting product design or delivery or customization. These types of customer-centric e-commerce systems permit customers to develop the perception that they have more control over the commercial interface with prospective vendors and subcontractors. From the firm's perspective, these information systems help to better differentiate their products or services based on customer service (Nardelli, 1999; Port, 1999).

Supporting this conclusion, Ernst and Young (1998) found that 69% of manufacturers and 58% of retailers using e-commerce systems believe they are critical to differentiating their products or services. Both Silverstein (1999) and Puhakainen and Karjalutto (1999) reported that online retailers are able to increase their level of perceived differentiation by using e-commerce systems to rapidly bundle products to respond to customer preferences or specifications and better structure promotional activities to target markets. However, it should be noted that many e-businesses have discovered that their key customer segments are often more strongly influenced by traditional methods of advertising including billboards (Hamilton, 1999).

The emergence of e-commerce has seen the development of another category of Internet competitor -- "market spoilers" or online brokers (Barnick & Meehan, 1999; Silverstein, 1999). These competitors serve as Web-based product and vendor information aggregators by providing comparative product information in a supplier-neutral fashion. Thus, consumers are able to rapidly compare products and services offered by a variety of vendors. Traditionally, product comparisons have enhanced the perceived differentiation of some products while eroding the basis for differentiation and brand imaging for others (Porter, 1980; Barnick & Meehan, 1999). By reducing the potential effectiveness of brand imaging, Silverstein (1999) argues that "marketspoilers" may shift the competition from differentiation to price.

Virtual Organizations and Access to Distribution Channels

Distribution channels are the mechanism that provides market access

for a firm's products or services and can represent a potential competitive barrier to new entrants (Rosenbloom, 1999). This occurs when existing firms have secured exclusive access to or control of the most appropriate distributors for marketing the product substitutes offered by the new entrant (Harrigan, 1984; Porter, 1980). When faced with this situation, new entrants must often (a) resort to distribution channels of lesser quality, (b) expend large amounts of capital to develop their own distribution infrastructures, or (c) offer existing distributors competitive inducements (e.g., wholesale discounts or cooperative advertising allowances) to sell their merchandise or services (Harrigan, 1984; Porter, 1980). However, e-commerce systems may offer many new entrants or virtual companies the ability to circumvent the distribution channel entry barrier by leveraging the strategic capabilities of information technologies (Kamel, 1999). Lucas (1999) maintains that fully integrated e-commerce systems require organizations to possess a Web site, a virtual storefront, and a transaction processing system that facilitates payment arrangements, order fulfillment, tracking, and customer support. Since this e-commerce infrastructure can be expensive and cumbersome to develop, many firms have elected to subcontract these marketing and distribution activities to outsourcers who "host" these functions for a variety of clients. So while the fledgling e-commerce firm "can't be Amazon.com, at least they can act like they are" (Lucas, 1999:74). For firms with more extensive financial resources, fully integrated e-commerce systems permit Web-based companies to directly interface with the end-users of products and services. This eliminates the requirement for sellers to offer intermediaries various financial subsidies or inducements to provide distribution support activities.

According to Ernst and Young (1998), both retailers (69%) and manufacturers (63%) generally believe that Internet selling will be beneficial to their overall sales volume. Only a small number of respondents (3% of retailers and 10% of manufacturers) felt that Internet selling would create conflicts with existing channels of distribution or core business activities. Some e-tailers maintain there may be potential synergies between Internet selling and conventional storefront operations. For example, Toysmart.com believes that its retail operations provide its customers with an opportunity to view and better understand the firm's product line before purchasing online. Therefore, the storefront operation helps consumers to conceptualize the marketing niche of the e-tailer and better differentiate its brand image (Leibs, 1999). Conversely, not all merchants conclude that online vending will create marketing synergies with their current storefront operations or marketing channels. Many urban retailers argue that 24-hour online trading will cannibalize sales from existing operations in downtown commercial districts (Gardner, 1999). Others speculate that online trading may supplant sales once garnered through catalog operations. For example, Franklin Covey expects its Internet sales site to divert significant numbers of customers away from its profitable catalog segment. The extent to which this cannibalization of sales between distribution channels is likely to occur is strongly dependent upon the degree of overlap in the market segments served by traditional retail and e-commerce channels of distribution (Fitzpatrick & Burke, 1999). However, this shifting of customers may have a potential downstream benefit to companies such as Franklin Covey in that Internet sites are more cost-efficient and can be updated more frequently to reflect changes in product offerings and prices (Leibs, 1999; Puhakainen & Karjalutto, 1999).

#### Conclusion

This paper has demonstrated how virtual organizations can use strategies based upon the use of both subcontracting and outsourcing and information technologies to reduce the impact of a variety of competitive entry barriers. These strategies assist organizations entering new markets

by reducing a variety of fixed and variable expenses and thereby lessening their capital requirements. The paper has also demonstrated how strategic alliances can provide funding proportionate to a firm's capital requirements, sources of product differentiation, and information technologies or market access to effectively sell its products or services. While virtual organizations or strategies may serve to lessen the impact of traditional entry barriers, they may also eliminate many of the customary sources for achieving and sustaining competitive advantage in the market. Therefore in the future strategic landscape, sources of competitive advantage may be more quickly and cost effectively cloned by other new entrants, and the window for exploiting competitive advantages from existing strategies may narrow significantly. Thus, continuous strategic renewal will still remain one of the critical priorities for both conventional and virtual organizations.

Dr. Fitzpatrick's teaching, management consulting, and publishing are in the areas of strategic planning and decision making, competitive intelligence systems, organizational design, and general management. Dr. Burke teaches strategic management and general management.

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